PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

CHIEF HEARING OFFICER DIRECTIVE

DOCKET NOS. 2020-125-E ORDER NO. 2020-121-H

DECEMBER 2, 2020

CHIEF HEARING OFFICER: David Butler

DOCKET DESCRIPTIONS:
Application of Dominion Energy South Carolina, Incorporated for Adjustment of Rates and Charges (*This filing includes a request for an increase to retail electric rates) (See Commission Order No. 2020-313)

MATTER UNDER CONSIDERATION:
Review of Document for Public Information

CHIEF HEARING OFFICER'S ACTION:
The Public Service Commission of South Carolina ("the Commission") has developed an information document for the public taken from Dominion Energy South Carolina's ("DESC's) Application and Notice. The document was designed to outline the major points as contained in the Application and Notice for public information purposes. It is not designed to replace any other such documents that may have been developed by other entities, but is to merely augment such other documents.

The proposed document is attached to this Order. If any party to this proceeding wishes to comment on the document, said party or parties must file such comments with the Commission, and serve them on the other parties by Noon on Friday, December 4, 2020. This ends the Chief Hearing Officer's Directive.

Dominion Energy of South Carolina, Inc.
Docket No. 2020-125-E
Dominion Energy South Carolina Electric Rate Increase Request

Background

On January 2, 2019, Dominion Energy completed its acquisition of SCANA Corporation, parent company of South Carolina Electric & Gas Company (SCE&G), after SCE&G abandoned its investment in the V.C. Summer nuclear project. Dominion Energy renamed the company Dominion Energy of South Carolina (DESC).

Rate Increase Request

On August 14, 2020, DESC applied for a rate increase for its electricity costs for its residential customers. In its application for an electric rate increase, DESC states that none of the costs attributed to the V.C. Summer abandonment are included in its request for an increase in revenue. Those costs already are included in customers' rates; customers' bills include a charge of $8.20 per month through 2039 to pay for the abandoned plant.

Key Facts

Number of customers served: 753,000

DESC states that, as a result of the merger, the utility has reduced annual operating expenses by $45 million. In other words, the company has experienced some operating efficiencies by merging with SCE&G.

DESC proposes that the rate increase take effect on or after the first billing cycle in March 2021.

- **Requested Increase.** In its application, DESC is requesting a total revenue increase of $178.234 million, which represents a rate increase of 7.75 percent, for its retail customers over current rates. The new rate translates into an increase for the typical residential customer of $9.68 per month. The following table shows current and proposed rates:

Average Residential Customer Monthly Bill

	Current (before tax rider)	Current (after tax rider)	Proposed	Difference
1000 kWh per month	$126.18	$122.31	$131.99	$9.68

DESC notes that the company's last rate increase occurred in 2012. In the years since that increase took effect, inflation in the U.S. economy has increased prices at the producer level by approximately 14 percent.

- **Return on Equity.** DESC is requesting a return on equity (ROE) of 10.25 percent. Return on equity is a financial ratio that measures a company's profitability by dividing its net income (i.e., profit) by its shareholders' equity, which is the difference between its assets (everything the company owns) and its liabilities (everything the company owes). ROE compares a company's profitability to its shareholders' (owners') equity.

- **Capital Structure.** When DESC and SCE&G merged, DESC agreed to abide by the Commission's Order No. 2018-804, which, in part, required the company to maintain a capital structure that includes an equity portion of 50 to 55 percent. In its application, DESC states that the equity ratio for its test year is 53.35 percent, which is within the appropriate range.

  The company estimates its actual cost of equity capital to be 10.40 percent but chose to apply for its currently approve cost of capital of 10.25 percent. DESC reports that the required increases in necessary investment and expenses have resulted in a projected return on equity in its test year of 5.90 percent, which it says "is financially unreasonable for an electric utility" and that "its current rates and charges are not sufficient to allow the Company a reasonable opportunity to recover its actual cost of providing electric service to customers, including the cost of the debt and equity capital invested in the electric system."

- **Drivers of the Requested Increase.** In its rate increase application, DESC cites several factors that drive its application for a rate increase, including the following investments in its electricity assets to improve safety, reliability, and efficiency to serve an expanding customer base that has grown by 12 percent since 2012:
  - $2.1 billion in its transmission and distribution systems.
  - $878 million in its generation system.

  The application also cites increases in the company's costs, including the following:

  - $198 million in information technology, software, and fleet maintenance.
  - Increased property taxes of $75 million.
  - Annual depreciation expense on its asset base of $34 million.
  - Increased healthcare costs of $10 million.
  - Costs, such as complying with federal regulations concerning nuclear safety and protecting against cyberattacks, that DESC has already incurred but has deferred to this rate case, totaling $100 million.
  - Vegetation management expenses of $27.62 million. Vegetation management is an essential part of minimizing power outages during storms.
  - Turbine maintenance expenses of $10.6 million for the Columbia Energy Center.
  - The company's request also includes deferred storm response and recovery costs of $26.4 million and the reinstatement of a storm reserve fund based on a five-year average of $9.8 million per year.

- **Other Proposals.** In its application, DESC also proposes the following items:
  - Creating a vegetation management accrual account to fund necessary vegetation control practices to improve the resiliency of the grid, especially in storms.
  - Restoring the Storm Damage Reserve component to rates.
  - Discontinuing an experimental commercial rate (Rate 21A, Experimental Program), a general service time-of-use demand rate.
  - Revising the standards under Residential Rate 6, Energy Saver/Conservation Rate.
  - Reducing the rate collected from residential customers under the Demand Side Management rider from the current rate of $0.00229 per kWh to $0.00158 per kWh.

Tax considerations. DESC proposes to discontinue the tax rider by which it returned to customers the tax savings under the Tax Cuts and Jobs Act of 2017 and replace it with a procedure that returns those savings to customers through base rates going forward after taking into account the unamortized excess deferred income taxes that remain after discontinuation of the tax rider.